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WONDERING IFRS???

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This document is divided into following parts as under:

1. What, why and where of International Financial Reporting Standards
2. Convergence process between Indian GAAP and International Financial Reporting Standards
3. Services rendered by AIISAA on IFRS
4. Table showing differences between International Financial Reporting Standards and Accounting Standards
5. List of International Financial Reporting Standards corresponding to Accounting Standards

PART - I

WHAT, WHY AND WHERE OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

International Financial Reporting Standards are a body of Standards and Interpretations on financial accounting and reporting. It comprises of the following:

1. International Financial Reporting Standards issued by International Accounting Standards Board
2. International Accounting Standards issued by International Accounting Standards Committee and adopted by International Accounting Standards Board
3. Interpretations originated by International Financial Reporting Interpretations Committee (IFRIC) and issued by International Accounting Standards Board
4. Interpretations originated by the then Standing Interpretations Committee (SIC) and adopted by International Accounting Standards Board

IFRSs are followed in more than 100 countries of the world. All companies listed in member countries of European Union, Australia, China, New Zealand prepare their financial statements in accordance with IFRSs. With rapid globalization and integration of economies, IFRSs has become the need of the hour. As per the announcement of International Accounting Standards Board, the body responsible for issuing IFRSs, more than 150 countries of the world will be following IFRSs by 2011. An added risk factor is attached to the financials of any entity that does not prepare and present its financials in accordance with IFRSs.

In view of the above, The Institute of Chartered Accountants of India has announced that all listed companies and large entities will have to prepare and present their financial statements for the year beginning from 1st April, 2011 as per IFRSs. Large entities have been defined as under by the Institute of Chartered Accountants of India which is different from that contained in the Companies (Accounting Standards) Rules, 2006:

⇒ Entities having turnover of more than Rs.100 crore in the immediately preceding year

⇒ Entities having Borrowings of more than Rs.25 crore at any time during the year

⇒ Banks, Financial Institutions and Insurance Companies

⇒ Holding or Subsidiary of any of the above

As one year comparative figures are to be presented, actually the convergence process should start from 1st of April, 2010. This is true even for quarterly results. Though our accounting standards are based primarily on the International Accounting Standards, there are wide conceptual and presentation differences because of many reasons. The preparation and presentation of financial statements as per IFRS entails changes in the accounting codes. It also calls for training to accounts and finance personnel.

PART – II

IFRS Convergence Process:

The starting point for any convergence process is presentation on basics of IFRS and some major differences. Once you have a feel of IFRS, we make our action plan. The action plan consists of the following steps:

1. Identifying the companies to be consolidated
2. Identifying the GAAP differences in each of those entities
3. Deciding on Accounting Policies for the Group as a whole
4. Gathering information to justify the differences as per the decided accounting policies
5. Changing the accounting system and codes to suit the IFRS framework in test environment
6. Making parallel run for accounting under IFRS and Indian GAAP
7. Testing the figures produced by the system in test environment
8. Preparing IFRS financial statements and reconciling the differences

Training would be pervasive in all the phases.

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PART - III

Services rendered by AIISAA on IFRS:

1. Preparation and Presentation of Financial Report in accordance with International Financial Reporting Standards
2. Consultant for International Financial Reporting Standards convergence
   a. Online Issue based consulting
   b. Offline consulting
3. Tailored Workshops and Training on International Financial Reporting Standards
4. International Financial Reporting Standards Financial Report supervisors / reviewers
5. International Financial Reporting Standards Financial Report Audit
6. Training Programs on IFRS
   a. I6 hours crash course on IFRS vis-à-vis Indian GAAP
   b. 40 hours modular course on IFRS
   c. 72 hours comprehensive course on IFRS

PART - IV

Table showing gist of differences between IFRS and Accounting Standards

Topic	IFRS	Accounting Standards
Historical Cost	Generally uses historical cost, but intangible assets (IAS 38), fixed assets (IAS 16) and investment property (IAS 40) may be revalued to fair value. Derivatives, biological assets and certain financial assets and financial liabilities are stated at fair value	Uses historical cost but fixed assets may be revalued to fair value (AS 10)
Compliance with a requirement of a Standard or Interpretation	Entities may, in rare cases, not comply with a requirement in a standard or interpretation where compliance will conflict with the	Small and Medium Sized Companies can opt for partial exemption provided it does not mislead public

Topic	IFRS	Accounting Standards
	objective of financial statements (IAS 1)	
First – time adoption	IFRSs to be applied from the beginning of the latest period presented (IFRS 1)	No guidance in AS but AAS 22 contains some guidance
Components of Financial Statements	5 components – Balance Sheet, Income Statement, Cash Flow Statement, SOCIE / SORIE and Notes (IAS 1). From 1 January, 2009, the following are the components: 1. Statement of Financial Position 2. Statement of Comprehensive income 3. Cash Flow Statement 4. Statement of changes in equity 5. Notes 6. If accounting policy changed or prior period error is rectified or items have been reclassified, opening statement of financial position of the immediately preceding year presented as comparative (IAS 1)	4 components – Balance Sheet, Profit and Loss Account, Cash Flow Statements (if applicable) and Notes (Framework)
Minimum Comparatives	Two years (IAS 1)	Not prescribed
Balance Sheet / Statement of Financial	No particular format prescribed except minimum line items to be	No format of financial statements except that of Cash Flow

Topic	IFRS	Accounting Standards
Position Presentation	presented on face. Classification normally on current / non-current basis except when a liquidity based classification provides more relevant and reliable information (IAS 1)	Statements is prescribed by Accounting Standards
Profit & Loss Account / Income Statement / Statement of Comprehensive Income	No particular format prescribed. Prescribes two formats for analysis of expenses and minimum line items to be presented on its face (IAS 1)	No format of financial statements except that of Cash Flow Statements is prescribed by Accounting Standards
Extraordinary items	Prohibited (IAS 1)	To be separately disclosed (AS 5)
Cash Flow Statements	Can be presented under direct or indirect method. Requires cash flow items to be classified into operating / investing / financing activities as per their substance (IAS 7)	Similar to IFRS except that AS 3 is rigid with regard classification of cash flow items
Changes in Accounting Policies	Restrospective Application unless impracticable (IAS 8)	No guidance on measuring for changes in accounting policy. Changes in Accounting Policy are presented prospectively. (AS 5)
Prior period errors	Retrospective restatement (IAS 8)	Prospective application (AS 5)
Changes in Accounting Estimates	Prospective Application (IAS 8)	Prospective application (AS 5)
Revenue Recognition	When risks and rewards and control have been transferred, revenue can be measured reliably, there is no continuing managerial involvement and cost can be	Similar to IFRS conceptually except for managerial involvement and reliable measurement of costs (AS 9)

Topic	IFRS	Accounting Standards
	measured reliably (IAS 18)	
Construction Contracts	Accounted for using Percentage of Completion Method (IAS 11)	Similar to IFRS (AS 7)
Depreciation	Allocated on a systematic and consistent basis to each accounting period over the useful life of the asset (IAS 16)	Similar to IFRS or Rate specified by Schedule XIV to the Companies Act, 1956, whichever is higher (AS 6)
Interest income and expense	Recognised on an accrual basis using the effective interest method (IAS 18 & IAS 39)	Recognised on an accrual basis using nominal interest rates (AS 9)
Employee Benefits – Compensated Absences	Expected cost of short-term compensated absences to be recognised on an accrual basis. Liability for long term compensated absences to be provided for actuarially (IAS 19)	Similar to IFRS (AS 15)
Share based payments	Amount to be recorded is measured at fair value of shares or share options granted for ESOPs and for others at fair value of the assets acquired or services received (IFRS 2)	Amount to be recorded is measured at the intrinsic value of the shares under options (Guidance note on Share based payment transactions)
Actuarial Gains / Losses	Can be deferred and can be recognised in Statement of Recognised Income and Expense. From 1 January, 2009, can be recognised as part of other comprehensive income (IAS 19)	Cannot be deferred and to be recognised in profit and loss account (AS 15)
Termination Benefits	Accounted for if there is a present obligation. For non-current	Similar to IFRS except for VRS whose recognition can be

Topic	IFRS	Accounting Standards
	termination benefits, provision is made on the basis of actuarial values (IAS 19)	deferred (AS 15)
Amortisation of Intangible assets	Intangibles having an indefinite useful life are not amortised but reviewed at least annually for impairment (IAS 38)	All intangibles are amortised over useful life or 10 years, whichever is lower. 10 years presumption is rebuttable.(AS 26)
Revaluation of Intangible assets	Permitted (IAS 38)	Not permitted (AS 26)
Non-current assets held for sale	Measured at Carrying amount or fair value less costs to sell, whichever is lower (IFRS 5)	Guidance given for assets retired from active use. They are measured at carrying amount or net realizable value, whichever is lower (AS 10)
Leases	Classification into finance or operating lease. Accounting on the basis of who enjoys the most of the risks and rewards of the leased asset (IAS 17)	Similar to IFRS (AS 19)
Borrowing Costs	Capitalised if attributable to bringing the asset to its condition for intended use and the asset necessarily takes over more than one year to get ready for its intended use or sale (IAS 23)	Similar to IFRS (AS 16)
Investment Property	Cost model or fair value model (IAS 40)	At cost (AS 13)
Impairment	Impairment to be tested annually for all assets having indefinite useful life or are under	The concept of asset having indefinite life is not prevalent (AS 28)

Topic	IFRS	Accounting Standards
	development irrespective of the prevalence of internal and external conditions (IAS 36)	
Inventories	Carried at lower of cost or net realizable value. FIFO or Weighted Average or Specific Identification Method can be used to determine the cost (IAS 2)	Similar to IFRS (AS 2)
Provisions – Measurement	Non-current provisions are discounted at the rate used for impairment (IAS 37)	No discounting of provisions (AS 29)
Contingent Assets	Not to be recognised but disclosed (AS 37)	Neither recognised nor disclosed (AS 29)
Deferred Tax	Uses Balance Sheet Liability Method (IAS 12)	Uses Income Statement Method (AS 22)
Purchase of own shares	To be shown as deduction from equity and kept as treasury shares (IAS 32)	To be cancelled and cannot be kept as treasury shares
Proposed Dividends	Only disclosed (IAS 1)	Recognised (AS 4)
Going Concern	Requires assessment by management annually If assumption found inappropriate, requires change in the basis of measuring the assets and liabilities (IAS 1 & 10)	Requires disclosure of the fact if going concern assumption not followed (AS 1)
Government Grants	Prohibits recognition as part of promoters' contribution (IAS 20)	States classification of government grants as part of promoters' contribution as a separate method (AS 12)

Topic	IFRS	Accounting Standards
Accounting for effects of changes in foreign exchange rates	Classifies currency into functional, presentation and foreign currency to determine the accounting effects (IAS 21)	Classifies operations into integral and non-integral to determine the accounting effects (AS 11)
Financial Instruments	Classification into asset and liability based on substance of the contract rather than the legal form Depends on their classification (IAS 39)	AS 30, AS 31 & AS 32 are similar to IFRS
Derivatives & Hedging	Derivatives and hedge instruments are measured at fair value; changes in fair value are recognised in income statements except for effective portion of cash flow hedges, where the changes are deferred in equity until effect of underlying transaction is recognised in income statement (IAS 39)	AS 30, AS 31 & AS 32 are similar to IFRS
Hyperinflationary Economy	Hyperinflation if cumulative inflation rate over three years is approaching or exceeds 100% If the entity's functional currency is the currency of a hyperinflationary economy, it should restate its financial statements using a measurement unit current at balance sheet date i.e. at current cost (IAS 29 & 21)	No standard

Topic	IFRS	Accounting Standards
Segment Reporting	Reported on the basis of information available to Chief Operating Decision Maker (CODM) (IFRS 8)	Reported on the basis of primary and secondary segments (business and geographical) (AS 17)
Discontinued Operations	Includes a subsidiary acquired exclusively with a view to resale Measured at fair value less costs to sell	Does not include such a subsidiary in its definition of discontinuing operation Measured in accordance with other applicable accounting standards (AS 24)
Biological assets	At fair value less estimated point – of-sale costs (IAS 41)	No Accounting Standard
Consolidation	The existence of potential voting rights are taken into account for determining whether an entity has control over another (IAS 27)	The existence of potential voting rights are not taken into account for determining whether an entity has control over another (AS 21)
Presentation of Consolidated Financial Statements	Always to be presented except in certain cases where the entity has availed the exemptions in Para 10 of IAS 27 and disclosed the same in its notes (IAS 27)	Not mandatory (AS 21)
Special Purpose Entities	Consolidated, where the substance of the relationship indicates control (SIC 12)	No guidance
Non-consolidation of subsidiaries	If control does not exist or the interest in the subsidiary is classified as held for sale (IAS 27)	If the interest in the subsidiary is held for resale
Accounting for Investment in	In Consolidated Financial Statements, to be consolidated	In Consolidated Financial Statements, to be consolidated

Topic	IFRS	Accounting Standards
Subsidiary	fully In Separate Financial Statements, at cost or as per IAS 39 If classified as held for sale, as per IFRS 5 (IAS 27)	fully In Separate Financial Statements, at cost If acquired for resale, as per AS 13
Definition of an Associate	Significant influence by an investor over an entity. Presumed if 20% or greater interest or participation in entity's affairs (IAS 28)	Similar to IFRS (AS 23)
Accounting for Investment in Associates	Equity Method in Consolidated Financial Statements In Separate Financial Statements, at cost or as per IAS 39 If classified as held for sale, as per IFRS 5 (IAS 28)	Similar to IFRS except that in separate financial statements, at cost or when acquired for resale, as per AS 13 (AS 23)
Disclosures on Associates	Detailed information of associates' assets, liabilities and results is required (IAS 28)	Not so detailed (AS 23)
Presentation of Jointly controlled entities	In Consolidated Financial Statements, both proportional consolidation and equity method is permitted In Separate financial statements at cost or at fair value as per IAS 39 (IAS 31)	In consolidated financial statements only proportional consolidation is allowed In Separate financial statements, at cost (AS 27)

Topic	IFRS	Accounting Standards
Methods of Business Combinations	Acquisition Method (IFRS 3)	No guidance on business combinations. In case of amalgamations, purchase or pooling of interests method can be opted (AS 14)
Values on acquisition	At fair values (IFRS 3)	For acquisition as a subsidiary, at their carrying amounts (AS 21) For amalgamation, as per court order (AS 14)
Goodwill	Not to be amortised but to be tested for impairment annually (IFRS 3)	To be amortised (AS 14)
Negative Goodwill	To be recognised in income statement immediately after reassessing the fair values of assets and liabilities (IFRS 3)	To be recorded as capital reserve (AS 14)
Subsequent adjustment to fair values in case of Business Combinations	Allowed if adjustment is within 12 months (IFRS 3)	Not allowed (AS 14)
Business combinations involving entities under common control	Not addressed	No specific guidance

PART - V

List of International Financial Reporting Standards and Accounting Standards issued as on date:

Sr. No.	IFRS Ref. No.	Title of IFRS Document	Ref. No. of AS
1	IFRS 1	First-time Adoption of International Financial Reporting Standards	No Standard
2	IFRS 2	Share-based payments	No Standard
3	IFRS 3	Business Combinations	AS 14
4	IFRS 4	Insurance Contracts	No Standard
5	IFRS 5	Non-Current Assets held for Sale and Discontinued Operations	AS 24
6	IFRS 6	Exploration for and Evaluation of Mineral Resources	No Standard
7	IFRS 7	Financial Instruments: Disclosures	AS 32
8	IFRS 8	Operating Segment	AS 17
9	IAS 1	Presentation of Financial Statements	AS 1
10	IAS 2	Inventories	AS 2
11	IAS 7	Cash Flow Statements	AS 3
12	IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	AS 5
13	IAS 10	Events after the Reporting Period	AS 4
14	IAS 11	Construction Contracts	AS 11
15	IAS 12	Income Taxes	AS 22
16	IAS 16	Property, Plant & Equipment	AS 10
17	IAS 17	Leases	AS 19
18	IAS 18	Revenue	AS 9
19	IAS 19	Employee Benefits	AS 19
20	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	AS 12
21	IAS 21	The Effects of Changes in Foreign Exchange Rates	AS 11
22	IAS 23	Borrowing Costs	AS 16

Sr. No.	IFRS Ref. No.	Title of IFRS Document	Ref. No. of AS
23	IAS 24	Related Party Disclosures	AS 18
24	IAS 26	Accounting and Reporting by Employee Benefit Plans	No Standard
25	IAS 27	Consolidated and Separate Financial Statements	AS 21
26	IAS 28	Investments in Associates	AS 23
27	IAS 29	Financial Reporting in Hyperinflationary Economies	Not Applicable
28	IAS 31	Interests in Joint Ventures	AS 27
29	IAS 32	Financial Instruments: Presentation and Disclosure	AS 31
30	IAS 33	Earnings per Share	AS 20
31	IAS 34	Interim Financial Reporting	AS 25
32	IAS 36	Impairment of Assets	AS 28
33	IAS 37	Provisions, Contingent Liabilities and Contingent Assets	AS 29
34	IAS 38	Intangible Assets	AS 26
35	IAS 39	Financial Instruments: Recognition and Measurement	AS 30
36	IAS 40	Investment Property	AS 13
37	IAS 41	Agriculture	No Standard
38	IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Assets	
39	IFRIC 2	Members' shares in Co-operative Entities and Similar Instruments	
40	IFRIC 4	Determining whether an arrangement contains a lease	
41	IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation funds	
42	IFRIC 6	Liabilities arising from participating in a Specific Market – Waste Electrical and Electronic Equipment	
43	IFRIC 7	Applying the restatement approach in IAS 29 Financial Reporting in Hyperinflationary Economies	
44	IFRIC 8	Scope of IFRS 2	

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Sr. No.	IFRS Ref. No.	Title of IFRS Document	Ref. No. of AS
45	IFRIC 9	Reassessment of Embedded Derivatives	
46	IFRIC 10	Interim Financial Reporting and Impairment	
47	IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	
48	IFRIC 12	Service Concession Arrangements	
49	IFRIC 13	Customer Loyalty Programmes	
50	IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions	
51	IFRIC 15	Agreements for the Construction of Real Estate	AS 9
52	IFRIC 16	Hedges of a Net Investment in a Foreign Operation	
53	IFRIC 17	Distribution of Non-cash Assets to Owners	
54	IFRIC 18	Transfer of Assets from Customers	
55	SIC 7	Introduction of the Euro	
56	SIC 10	Government Assistance – No Specific Relation to Operating Activities	
57	SIC 12	Consolidation – Special Purpose Entities	
58	SIC 13	Jointly Controlled Entities – Non-monetary contributions by venturers	
59	SIC 15	Operating Leases – Incentives	
60	SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets	
61	SIC 25	Income Taxes – Changes in Tax Status of an Entity or its Shareholders	
62	SIC 27	Evaluating the substance of a transaction involving the Legal Form of a Lease	
63	SIC 29	Service Concession Arrangements: Disclosures	
64	SIC 31	Revenue – Barter Transactions involving Advertising Services	
65	SIC 32	Intangible Assets – Web Site Costs	AS 26